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C O N F I D E N T I A L BUENOS AIRES 000051

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TAGS: ECON PGOV EINV AR ETTC
SUBJECT: Argentina Telecom Monopoly Dispute Leads to Threats of Nationalization.

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CLASSIFIED BY: Thomas P. Kelly, DCM; REASON: 1.4(B), (D)

Summary

¶11. (SBU) Following a purchase in Europe that gave the owner of one of Argentina's two fixed-line telephone providers a small interest in the other, refusal by the company to divest has led to overt GoA threats of nationalization. Whether this is a real threat or simply a distraction from other political problems remains to be seen. End Summary.

The Beginning

¶12. (SBU) There are only two main players in the Argentine fixed-line telephone market: Telefonica de Argentina, owned by Spain's Telefonica, and Telecom Argentina, owned by Telecom Italia. (Both companies also have significant cellphone market interests, but there are other companies operating in that area.) The current dispute began when Spanish Telefonica bought a significant interest in Telecom Italia in 2007, which gave it a 1.8% ownership stake in Telecom Argentina. Despite its small ownership interest, as well as assurances from both Spanish Telefonica and Telecom Italia that the two Argentine companies would continue to operate independently, Argentina's Commission for the Defense of Competition (CNDC, which has anti-trust authority) ruled in August 2009 that Spanish Telefonica's ownership interests in both Argentine companies created antitrust concerns, mandating that Telecom Italia sell its ownership of Telecom Argentina by August 2010. Telecom Italia responded by stating that it will only sell out if it receives a reasonable offer and filed legal suit, challenging CNDC's decision. A lower court recently issued an injunction that suspended the CNDC's August deadline, pending resolution of the dispute, and the GoA is appealing the decision.

¶13. (SBU) In response, GoA Planning Minister Julio De Vido publicly threatened on January 18 to nationalize Telecom Argentina if its Italian parent does not sell its ownership of the company and continues to contest the issue in the courts. De Vido said that "competition does not exist" in the fixed-line market, adding that the GoA may ask Congress to cancel Telecom Argentina's operating license. According to a CNDC statement published in the GoA's Official Gazette, Telecom Italia's failure to arrange the sale by February 25 would trigger GoA action, ranging from fines to cancellation of the concession. The CNDC imposed a fine against

Italia of USD 27 million on January 6 for failing to notify the CNDC of Spanish Telefonica's interest in Telecom Argentina.

Possible Explanations

¶4. (SBU) The most common theory about the GoA action against Italia is that the GoA is seeking to force a transfer of ownership from foreign to Argentine interests - especially those friendly to the GoA. Telecom Argentina 's immediate parent company is owned equally by Telecom Italia and an Argentine holding company, the Werthein Group. News reports suggest that six Argentine companies are competing to buy Italia's stake, including Clarin, the Pegasus Group, Genevieve Fund, Carlos Joost Newsberry's Condor Fund, Alfredo Roman, and Aeropuertos Argentina 2000, owned by Eduardo Eurnekian and Ernesto Gutierrez. The GoA reportedly supports Aeropuertos Argentina. (Eurnekian and Gutierrez are considered two of the government's most important allies in the private sector.)

¶5. (C) This push for Argentine ownership has happened in the past. In fact, Werthein acquired its stake in Telecom Argentina from a French firm in 2003 during the beginning of former president Nestor Kirchner's administration. Similar transactions have taken place in

electricity distribution in 2005 and the oil sector in 2008 (Ref A). The GoA, under both Nestor Kirchner and his successor and wife, Cristina Fernandez de Kirchner (CFK), has often used nationalization as a policy tool. It took over the privatized postal system in 2003, radio spectrum management in 2004, water and sewage for Buenos Aires in 2005 (all Ref A), flagship carrier Aerolineas Argentinas in 2008 (Ref B), and the private pension system, also in 2008 (Ref C). Some informed sources think this may occur again, this time in the telecom sector. In comments to the press reported January 22, local telecommunications consultant Pablo Tedesco said, "Given how quickly this government acts, I almost see a nationalization coming up, like they did with Aerolineas Argentinas." But others think that the issue is being flogged by the government as a diversion. For example, some believe that De Vido's statements were intended to draw attention away from the embroilment over CFK's dismissal of Central Bank President Martin Redrado and attempt to use Central Bank reserves to create a fund for debt payments (Ref D).

Comment

¶6. (C) Whether nationalization occurs or not, this latest controversy is yet more evidence that the Kirchner Government will continue to aggressively pressure and threaten those who defy it, even in the face of an increasingly assertive judiciary and Congress. The GoA's campaign against Telecom Italia may also have consequences beyond Argentine borders. Some European Parliament members have, in a letter to the EC President, called this a "campaign of intimidation and illegality." There are also reports in the local press that the U.S. Securities and Exchange Commission has launched an investigation into the forced sale (involving companies that are actively traded in US exchanges).
MARTINEZ